

Message Text

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13

ACTION EA-09

INFO OCT-01 ISO-00 COME-00 TRSE-00 AID-05 OMB-01 CIAE-00

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R 090652Z APR UY

FM AMEMBASSY CANBERRA

TO SECSTATE WASHDC 7920

INFO AMCONSUL BRISBANE

AMCONSUL MELBOURNE

AMCONSUL PERTH

AMCONSUL SYDNEY

AMEMBASSY TOKYO

AMEMBASSY WELLINGTON

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E.O. 11652: N/A

TAGS: EFIN, AS

SUBJECT: RESERVE BANK CUTS SRD RATE

BEGIN UNCLASSIFIED

1. ON EVENING OF APRIL 8 H.M. KNIGHT, GOVERNOR OF RESERVE BANK OF AUSTRALIA ANNOUNCED 2 PCT CUT IN STATUTORY RESERVE DEPOSIT (SRD) RATIO FROM 7.6 PCT TO 5.6 PCT. THE CUTS ARE TO BE MADE IN TWO EQUAL 1 PCT. STAGES, THE FIRST TO BE EFFECTIVE ON APRIL 14 AND THE SECOND ON APRIL 28. IT IS ESTIMATED THAT THIS ACTION WILL ADD ABOUT \$-300 MILLION TO FREE LIQUID ASSETS AVAILABLE TO BANKING SYSTEM FOR LENDING.

2. IN AN ACCOMPANYING STATEMENT KNIGHT SAID THAT "THIS MOVE IS PART OF A COURSE OF ACTION AIMED AT EASING THE SEASONAL RUNDOWN IN LIQUIDITY WHICH IS CONCENTRATED IN APRIL AND MAY WHEN PROVISIONAL AND COMPANY TAX PAYMENTS TO THE GOVERNMENT ARE HEABY. DYRING THIS PERIOD, THE RESERVE BANK WILL USE AVAILABLE INSTRUMENTS OF MANAGEMENT, INCLUDING THE SRD RATION, TO KEEP BANK LIQUIDITY SUFFICIENT TO

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ENABLE BANKS' LENDING TO CONTINUE AT ABOUT RECENT LEVELS AND TO AVERT ANY UNDUE TIGHTENING OF FINANCIAL MARKETS IN GENERAL. THE AIM IS TO PROVIDE FUNDS SUFFICIENT TO PERMIT RECOVERY IN THE ECONOMY TO CONTINUE BUT WITHOUT FEEDING INFLATION." END UNCLASSIFIED

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3. COMMENT: GOVERNMENT HAS TAKEN GREAT PAINS TO DAMPEN ANY PANIC REACTION TO ITS ANNOUNCEMENT BY POINTING OUT THAT ITS ACTION WAS TAKEN ONLY TO ALLOW FOR INCREASED LIQUIDITY NEEDED TO PAY CORPORATE INCOME TAXES DUE IN MAY AND JUNE. LABOR GOVERNMENT UNDER FORMER TREASURER CREAN HAD INITIATED A SYSTEM WHEREBY COMPANIES PAID THEIR CORPORATE INCOME TAXES IN QUARTERLY INSTALMENTS, THUS IN EFFECTIVE DEPRIVING COMPANIES OF THE FORMERLY ENJOYED PRIVILEGES OF USE OF TAX-FREE FUNDS FOR THE BEST PART OF A YEAR AFTER THEY WERE EARNED AND HAVING ADDITIONAL ADVANTAGE OF LEVELING OUT SEASONAL NEED FOR ADDITIONAL LIQUIDITY IN JUNE QUARTER WHEN COMPANIES FORMERLY PAID THEIR YEARLY TAXES. IN A MOVE DESIGNED TO PROVIDE RECESSION-HIT COMPANIES WITH ADDITIONAL SHORT TERM FUNDS, FRASER GOVERNMENT ANNOUNCED ON DECEMBER 23, 1975 THAT QUARTERLY PAYMENT DUE IN FEBRUARY 1976 WOULD BE SUSPENDED AND WOULD BE DUE WITH NORMAL MAY-JUNE PAYMENT. ON FEBRUARY 17, DURING COURSE OF SPEECH OF THE GOVERNOR GENERAL AT OPENING OF PARLIAMENT, THE GOVERNMENT ANNOUNCED THAT THREE QUARTERLY PAYMENTS DUE IN FY77 (I.E. IN AUGUST, NOVEMBER AND FEBRUARY) WOULD BE SUSPENDED IN FAVOR OF ONE PAYMENT IN MAY-JUNE 1977. AS A RESULT, CORPORATE TAXPAYERS MUST NOW COME UP WITH FUNDS FOR ONE YALF YEAR'S TAXES MUCH OF WHICH WILL HAVE TO BE BORROWED. THE GOVERNMENT CLEARLY INTENDS TO SEE TO IT THAT THERE IS SUFFICIENT LIQUIDITY TO MEET NEEDS OF BUSINESS FOR TAX FUNDS WITHOUT PLACING UNDUE STRAIN ON INTEREST RATES.

4. ALTHOUGH THERE CERTAINLY APPEARS TO HAVE BEEN A NEED TO PROVIDE EXTRA LIQUIDITY AT TAX PAYMENT TIME, IT ALSO IS ENTIRELY POSSIBLE THAT GOVERNMENT MAY HAVE BEEN FINDING THAT SERIES OF ACTIONS TAKEN IN JANUAR6 LIMITED OFFICIAL USE

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KCANBERRA 718) WERE CAUSING THE FINANCIAL SHOE TO FIT A LITTLE TOO TIGHTLY FOR COMFORT. FRASER GOVERNMENT IS UNDOUBTEDLY CONSTANTLY AWARE OF SPECTOR OF CREDIT SQUEEZE THAT PLAGUED THE WHITLAM GOVERNMENT IN THE SPRING OF 1974. SUBSEQUENT MOVEMENTS IN THE SRD RATION WILL OFFER A CLUE IN THIS CONNECTION. HARGROVE

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*** Current Handling Restrictions *** n/a

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